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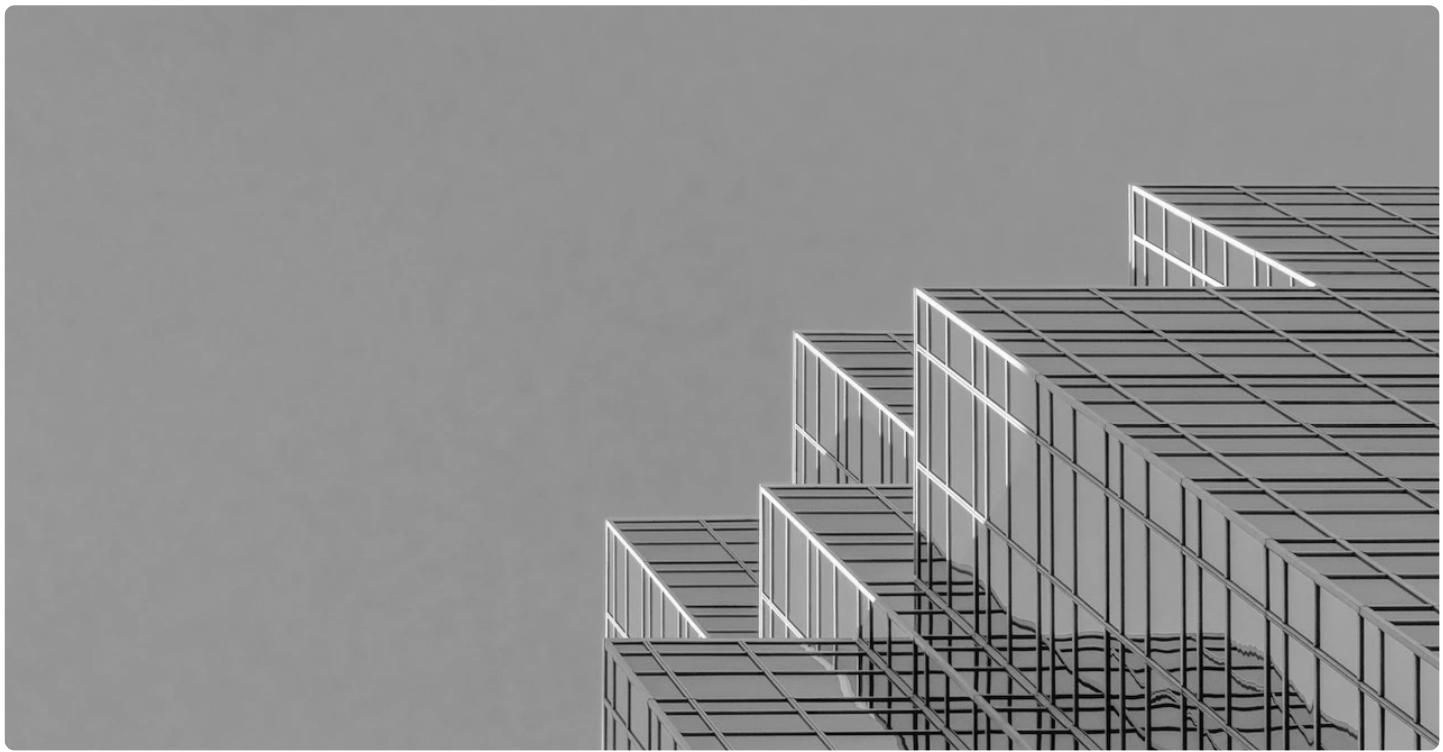
Insights

Q1 2023 XRP Markets Report

• Team Ripple

APR 27, 2023

INSIGHTS XRP



Ripple publishes the quarterly XRP Markets Report to voluntarily provide transparency and regular updates on the company's views on the state of crypto markets, including its quarterly XRP sales, relevant XRP Ledger and XRP-related announcements, and commentary on market developments over the previous quarter.

As an XRP holder, Ripple believes proactive communication and transparency are part of being a responsible stakeholder. Moreover, Ripple urges others in the industry to build trust, foster open communication and raise the bar industry-wide.

Notable Takeaways

- Total XRP sales by Ripple in Q1 2023, net of purchases, were \$361.06M v. \$226.31M the previous quarter.
- XRP Ledger on-chain activity remained strong, with decentralized exchange volumes increasing 34% to \$115M in Q1 2023 versus Q4 2022. XRP Average Daily Volume (ADV) on centralized exchanges jumped 46% in Q1 to \$1B from \$698M.
- The EU, UK and UAE proposed new regulatory regimes for crypto focused on licensing and activity-based frameworks.
- Developers proposed a new interoperability standard (XLS-38d) for the XRP Ledger that would enable users to transfer digital assets and data between blockchains regardless of underlying protocol or programming language.

Crypto Market Summary

There was no shortage of important events in crypto and broader financial markets in Q1. While initially global inflation expectations slowed, macro turbulence revealed cracks in parts of the economy. Critical blows were dealt to Silvergate, Silicon Valley Bank (SVB), Signature and Credit Suisse, among others. Despite the turmoil, crypto markets including XRP, remained resilient.

While Silvergate's fall unfolded over the course of several months, the speed of the bank run on SVB caught many off guard. Exacerbated by social media, SVB's lack of basic asset-liability-management on the back of rate hikes ignited concerns of other regional banks failing to match their liabilities effectively. The resulting panic saw other institutions such as First Republic and Charles Schwab experience deep sell-offs. Credit Suisse's collapse shortly thereafter – while due to largely unrelated factors – was spurred by the larger market anxiety. While the Swiss government's intervention quelled initial fears, it raised questions as to the extent to which a sovereign can overrule established law. This unprecedented set of events highlighted the extent of the opacity and interconnectedness across our global financial and crypto markets.

With the fall of SVB and unexpected shutdown of Signature Bank, much of the crypto world found itself de-banked in the US overnight. While a deposit backstop by the FDIC and Federal Reserve relieved immediate fears, the subsequent closures of the three main banks servicing crypto companies meant that the fiat rails to these banks, utilized by the bulk of the industry to move money in and out of crypto, needed to be rebuilt and new partners to be found. Another casualty in the process was USDC, which had a short-term liquidity driven de-peg down to \$0.85 on some exchanges. USDC recovered to \$1 within a few days, but market confidence in important on-off ramps was shaken.

This combination of events – with previous actions such as the Fed denying the application of crypto-focused bank Custodia for membership, and the Fed, FDIC and OCC issuing a joint statement on liquidity risks to banks servicing the fiat deposits of crypto clients – continued to fuel sentiment that regulators are attempting to dissuade banks from allowing legal operating entities within crypto to have bank accounts in the US. Some have referred to this as “Operation Choke Point 2.0.”

Despite broader financial turmoil, in Q1, volumes in XRP markets were up 46% QoQ, likely due to a combination of a subsequent recovery in markets as well as large volatile events which tend to spike volumes (Source: CCData). BTC and ETH spot volumes were up 12% and down 12% respectively QoQ. However, derivatives volumes tell a different story with BTC and ETH up 14% and 20% respectively QoQ. This divergence between spot and derivatives volumes could point towards a significant leverage-driven rally with an additional volume boost stemming in part from reassurance with the successful Ethereum Shanghai upgrade, which allowed ETH validators the ability to withdraw 18 million staked tokens that were previously locked up.

Heading into Q2, it is clear that macro uncertainty will continue. Nevertheless, we expect that those who build on a battle-tested foundation of prudent risk management and real-world utility will continue growing once the world emerges from the current climate.

Global Regulation

Several countries are moving forward with new legislation and licensing regimes to provide clarity for crypto. Specifically, in the EU, the final vote on the Markets in Crypto Assets regulation (MiCA) – which will result in the implementation of a new licensing regime in the 27 member states – passed on April 20. The UK government introduced comprehensive regulatory proposals for a new regulatory regime for crypto, building on prior proposals focusing on stablecoins and financial promotion of tokens. As a result, many in the industry lauded Europe's efforts to regulate crypto responsibly.

In the Middle East, the UAE passed a new law governing virtual assets, setting up the country's initial regulatory regime for cryptocurrencies at the federal level. Additionally, in Dubai, the Virtual Assets Regulatory Authority (VARA) published their regulatory regime for crypto, consisting of activities-based rulebooks. This also opens up the way for companies to be authorized by VARA and conduct crypto activity within Dubai (rather than in the international free zones). Australia's central bank and Treasury held private meetings with international crypto industry executives on the future of crypto and regulation in the nation. Finally, Hong Kong and Australia opened public consultations on proposed requirements for virtual asset trading platform operators and token mapping respectively.

The US's approach to crypto regulation continued to focus on regulation by enforcement instead of rulemaking, as Coinbase and Paxos received Wells notices from the SEC alleging various securities laws violations and lack of registration. SEC Chair Gensler issued a broad warning to yield-earning crypto platforms to come into compliance after Kraken shuttered its staking service, to which Commissioner Peirce denounced her own agency's actions. The SEC also filed a lawsuit against Justin Sun, affiliated firms and celebrity promoters, alleging market manipulation and sales of unregistered securities. The CFTC sued Binance, CEO Changpeng Zhao and Chief Compliance Officer Samuel Lim, for allegedly violating US trading and derivatives laws.

Update on the SEC Lawsuit Against Ripple

On March 6, the Court issued a 57 page opinion deciding which opinions of the SEC's and Ripple's experts can be considered on summary judgment (and, if needed, at trial) and which opinions need to be "stricken." Specifically, the SEC's expert's testimony regarding the "reasonable expectations of an XRP purchaser" was struck from the record, along with their expert who attempted to determine what "caused" the price of XRP to change. Ripple expects a decision on summary judgment in 2023 though timing is ultimately up to the Court.

XRPL On-chain Activity

On-Chain Activity	Q1 2023	Q4 2022	Q3 2022
Transactions	116,341,516	106,429,153	103,039,261
XRP Burned for Transaction Fees	140,993	101,968	146,433
Avg cost per transaction (in XRP)	0.00121	0.00096	0.0014
Average XRP Closing Price (in USD)	0.40	0.42	0.36
Avg cost per transaction (in USD)	0.000484	0.0004032	0.000504
Volume on DEX (in USD)	114,567,441	85,772,947	117,372,932
Trustlines	8,317,321	8,731,628	9,115,964
Number of New Wallets	140,558	228,143	125,225

(Source: XPMarket.com and CoinMarketCap)

On-chain activity on XRPL remained strong this quarter, as transactions increased 9% to 116M, versus 106M from the previous quarter. NFTs continue to drive activity and over 1 million assets have been minted on the Ledger since XLS-20 went live on mainnet. This strong activity is also reflected in DEX volumes, which increased 34% versus last quarter to \$115M. Note: the average cost per transaction in USD has been corrected on this table (for this and previous quarters) and continues to be more advantageous for users, compared to other blockchains.

On-Demand Liquidity (ODL)

Bitso, the leading crypto exchange in Latin America, announced last quarter it surpassed more than \$3.3 billion in transactions between the US and Mexico in 2022 through its institutional crypto solutions utilizing Bitso's strategic partners, such as Ripple and its On-Demand Liquidity (ODL) product. This partnership illustrates the institutional use of cryptocurrency as a cross-border payment solution and an example of the utility of blockchain and crypto.

The big news of the quarter was the banking crisis and the negative impact to crypto liquidity, which also led to some disruption to liquidity available for ODL, though customer flows recovered quickly. ODL remains robust and continues to serve customer flow to facilitate cross-border payments in a low-cost, timely and reliable method thanks to redundancy and sustainability planning. While there is no denying the industry is facing strong headwinds, Ripple continues to be laser focused on minimizing the impact of the banking crisis on our partners, and providing the best experience for its customers.

Disciplined, Responsible Stakeholders: Q1 Sales and Purchases

Last quarter, total XRP sales by Ripple, net of purchases, were \$361.06M vs. \$226.31M in the previous quarter. Ripple has continued to sell XRP only in connection with ODL transactions. Since 2020, Ripple has sourced XRP from the open market to ensure there is a sufficient supply of XRP available for our growing ODL business. We continually strive to minimize undue market impact with our purchases by, for example, limiting how much and from whom we purchase XRP.

Summary of Ripple's XRP Sales (<i>dollars in millions</i>)	Q1 2023	Q4 2022
Total ODL-related sales*	2,930.87	2,964.28
Total purchases	2,569.81	2,737.97
Net Sales	361.06	226.31
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Global XRP volume	Q1 2023	Q4 2022
ADV XRP (<i>dollars in millions</i>)	1,020.42	698.45
Total XRP volume (<i>dollars in billions</i>)**	91.84	64.31
Net sales as % of total volume	0.44%	0.35%

*All ODL-related sales are attributed to the growth and adoption of ODL.

**Note: Figures were compiled using the CCData API for daily TopTier aggregate volumes which reflects total XRP volume in dollars by exchanges that CCData lists in the TopTier.

Total sales by Ripple, net of purchases, ended the quarter at 0.44% of global XRP volume according to CCData TopTier (CCTT) volumes. Due to the circumstances of the banking crisis, Ripple stopped purchasing XRP for several days due to

the disruption. This activity has since resumed and the company expects to continue to undertake purchases as ODL adoption grows.

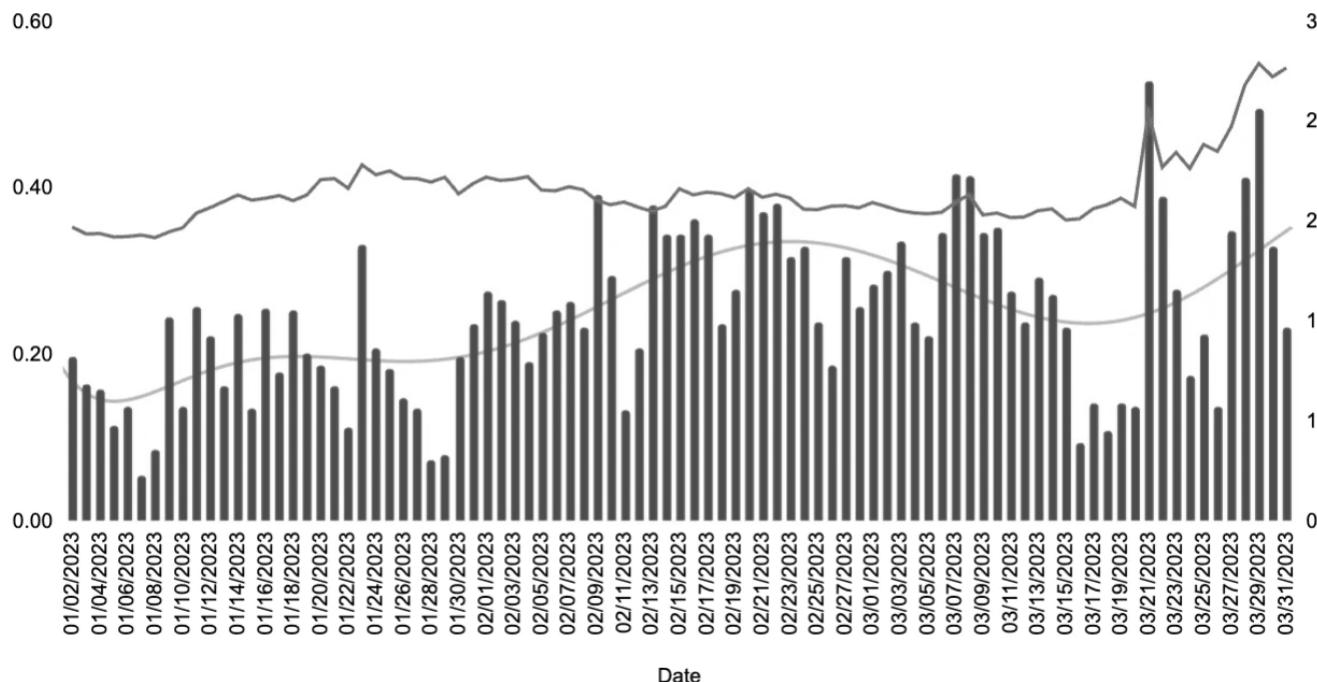
Leases

Certain wallets used for XRP sales also provide short-term leases to market makers and participants. This is worth noting, given they are often incorrectly interpreted by market participants as sales. XRP associated with leases are ultimately returned to Ripple. The total amount of leases outstanding in Q1 2023 was 52 million XRP.

Reported Volume and Price

XRP Price vs Volume - Q1 2023

■ ADV(RHS, \$Bn) — XRP Closing Price (LHS, \$)



During Q1 of 2023, the price of XRP appreciated 24% with ADV on centralized exchanges also scaling up to an average of \$1.0B, up 46% from Q4 2022.

Escrow

In Q1 2023, three billion XRP were released out of escrow (one billion each month) in line with prior quarters and the official escrow arrangement. In total, 2.1 billion XRP were returned and subsequently put into new escrow contracts throughout the quarter. For more information on the escrow process, see [here](#). Note: All figures are reported based on transactions executed during the quarter.

Building with the XRP Ledger (XRPL) Community

Messari Adds XRP Ledger to Coverage

Messari, a leading crypto analyst firm, wrote about the XRP Ledger in a Protocol Overview, covering everything from how the Ledger processes transactions to unique capabilities of the DEX, what's being built by the community (EVM sidechain, Hooks, etc) and more.

Tokenization Projects

Since the mainnet launch of the NFT standard XLS-20 in Q4 2022, over 1.2M NFTs have been minted, making XRP Ledger among the top 10 chains for NFT volume and transactions. In addition, there are now 1,500+ apps/exchanges on the XRPL and 950+ public projects on GitHub related to XRPL.

Launch of XRPL Commons

XRPL Commons, a non-profit association focused on educating and empowering the global XRP Ledger community, launched last quarter. With a mission to support a vibrant XRP Ledger ecosystem, XRPL Commons aims to provide education, hands-on building programs, and resources for the XRPL community and developers worldwide. Its focus will encompass regenerative finance, financial inclusion, and intellectual property.

XRPL Labs Launches a Browser-Based DEX Accessing the Native XRPL DEX

This is the first desktop trading solution from XRPL Labs, the creators of Xumm, a noncustodial XRPL wallet. The Web DEX allows users across the globe to access the XRPL DEX securely and efficiently, bringing Xumm's applications to browsers worldwide.

XRPL Technical Updates

- Developers from Ripple proposed a new Interoperability standard (XLS-38d), for a cross-chain bridge that would enable interoperability between different blockchain networks on February 22. The proposed standard will enable users to transfer digital assets and data between blockchains, regardless of their underlying protocols or programming languages. It would allow tokens from one blockchain to be locked in an account on the XRP Ledger, while an equivalent amount of tokens is issued on another blockchain – increasing the use cases and adoption of the XRP Ledger.
- Sidechains and the Automated Market Maker (AMM) amendment are coming to a close and soon to undergo 3rd party security reviews. The research team also released a spec for native support of Decentralized Identity (XLS-40d) for community review.

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